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FOLLOW-UP TO THE REPORT OF THE EXTERNAL AUDITOR FOR THE BIENNIUM 1998-1999

Implementation of measures recommended by the External Auditor

Report by the Director-General

Reports on the implementation of measures contained in Board decision IDB.23/Dec.2.

1. In decision IDB.23/Dec.2, the Board took note with satisfaction of the report of the External Auditor for the biennium 1998-1999 (IDB.23/3) and the comments of the Director-General (IDB.23/7), and requested the Director-General to report on the implementation of a number of specific measures:

(a) Measures to ensure recovery of the receivables owed to the Organization, including taking legal action against the debtors, as referred to in paragraph 45 of the report of the External Auditor;

(b) Establish procedures for the systematic follow-up of receivables and limit the administrative work connected with such follow-up;

(c) Undertake an actuarial study to determine the financial impact of after-service health insurance;

(d) Pay all due attention to the efficiency of Financial Services.

2. Progress in the implementation of these measures is summarized in the following paragraphs.

Receivables

3. The report of the External Auditor (IDB.23/3-PBC.16/4, paras. 43 and 44), states that most of the receivables that were submitted for write-off were owed to the Organization by former staff members or consultants/experts, and related to small amounts ($100 to $500). The External Auditor recommended that the Secretariat develop procedures to follow up on receivables and to reduce the administrative work relating to such recoveries.

4. The Secretariat has therefore assigned the responsibility for a systematic follow-up of receivables to focal points within Financial Services. Standardized procedures have been established and continually improved based on experience gained; the results have been good. Other control measures are also being

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introduced to safeguard the interests of the Organization.

5. The Secretariat is also establishing an automatic follow-up system within the new financial performance control system, expected to be in place in due course, which will provide for ageing of the receivable accounts, as well as periodic generation of reminders.

Actuarial study to determine the financial impact of after-service health insurance

6. UNIDO charges after-service health insurance (ASHI) subsidies on a "pay-as-you-go" basis against common staff costs of the regular budget. The amount paid by UNIDO for ASHI for the biennium 1998-1999 amounted to $1.58 million. The amount paid for the year 2000 amounted to $1.17 million, and this amount is expected to increase in the future due to the increasing number of retirees and growing medical costs. Most United Nations specialized agencies, including UNIDO, have not built up a reserve for present and future liabilities. The problem is of United Nations-wide importance, and requires a system-wide solution.

7. Many organizations in the system lack reliable information on the exact amount of their liability. In the absence of such information for UNIDO, the External Auditor recommended that an actuarial study be carried out to determine estimated unfunded liabilities. As mandated by the Board, a consultant carried out an actuarial study and submitted a draft report in February 2001. The study shows that UNIDO was exposed to an estimated liability of $36.7 million at the end of December 2000. This has been reported in the notes to the interim financial performance report and programme performance report for the biennium 2000-2001 (IDB.24/6-PBC.17/6, note 2(s)). The expert has also determined that the liability will gradually increase to some $64 million by the end of 2010.

8. Since the above issue is of system-wide importance, a solution will also require a system-wide approach. Therefore, the Secretariat will discuss this matter with other organizations to identify an appropriate solution. Until that time, the Secretariat intends to continue charging such costs on a "pay-as-you-go" basis against the common staff costs of the regular budget.

9. The External Auditors have informed the Secretariat that the United Nations Joint Staff Pension Fund (UNJSPF) faces a similar problem that is currently under review by the Panel of External Auditors. When the Panel arrives at a conclusion and makes its recommendations, the situation will have to be reviewed as to whether it can be applied to ASHI as well.

Efficiency of Financial Services

10. Board decision IDB.23/Dec.2, paragraph (f), was based on paragraphs 54 to 59 of the report of the External Auditor, which analysed the staffing situation of Financial Services, especially at the Professional level, and compared it to the staffing situation of other sections within FOA. The External Auditor recommended that all vacant Professional posts in Financial Services be filled as soon as possible in order to strengthen the conceptual work capacities. In the Secretariat's view, the shortage of Professional staff is the result of past drastic downsizing, is prevalent throughout UNIDO, and is not limited to Financial Services.

11. The Secretariat has, however, taken a number of measures to strengthen Financial Services. In early 2000, three sections (Accounts, Payments and Treasury; Budget; and Financial Management of Technical Cooperation) were merged into one (Financial Services), thereby maximizing staff resources and achieving greater functional flexibility. One accountant at the P-3 level, appointed in late 2000, has been assigned the responsibility to look after the accounts on a full-time basis. Furthermore, the United Kingdom of Great Britain and Northern Ireland provided extrabudgetary resources for the recruitment of an expert at the L-4 level for a period of two years to assist in the implementation of a new financial system. The expert joined UNIDO in late August 2000. Some vacant senior General Service posts have been converted to junior level Professional posts in the programme and budget proposals for 2002-2003, recruitment for which will be addressed upon approval of the programme and budgets.

12. Furthermore, as reported in the document on financial situation, the first stage of the new financial performance control system became operational at the beginning of 2001 (IDB.24/8-PBC.17/8, para. 13). The new system is expected to lead to greater efficiency in the management of programmes and projects, as well as the Organization's ability to report on various activities. Financial Services has also taken the lead in streamlining procedures to achieve further efficiencies.

13. The combination of these several measures should lead to an adequately staffed Financial Services, capable of meeting present and future challenges.

ACTION REQUIRED OF THE COMMITTEE

14. The Committee may wish to recommend that the Board take note of the information provided in the present document.